

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 MMO-01 /087 W
-----076262 011357Z /43

R 011231Z APR 78
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 7466
INFO AMCONSUL ALEXANDRIA

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E.O. 11652: N/A
TAGS: ECON, EFIN, EG
SUBJ: PRIME MINISTER RESPONDS TO CRITICS OF
ECONOMIC POLICY

REF: (A) CAIRO 9773, (B) CAIRO 9662, (C) CAIRO 9509

SUMMARY: PRIME MINISTER SALEM DEFENDED HIS GOVERN-
MENT'S ECONOMIC POLICY IN EXCLUSIVE AL-AHRAM INTER-
VIEW APRIL 1. WHILE MAINTAINING THAT SO-CALLED
BASIC COMMODITIES MUST CONTINUE TO BE AVAILABLE AT
CONTROLLED PRICES, SALEM HINTED THAT FURTHER SUBSIDY
REDUCTIONS AND PRICE INCREASES COULD BE EXPECTED.
HE ALSO PREVIEWED PLANS TO END GUARANTEED EMPLOYMENT
FOR UNIVERSITY GRADUATES. PRIMIN'S INTERVIEW IS
STRONGEST REAFFIRMATION TO DATE OF GOE INTENTION
CONTINUE WITH ECONOMIC REFORMS DESPITE WIDESPREAD
CRITICISM OF RESULTING PRICE INCREASES. END SUMMARY.

1. FOLLOWING HARD ON HEELS OF DEPUTY PRIMIN
KAISSOUNT'S SPEECH TO PEOPLES ASSEMBLY (REF A),
PRIME MINISTER MAMDUH SALEM GAVE EXCLUSIVE INTERVIEW
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TO AL-AHRAM ECONOMIC CORRESPONDENT IBRAHIM NAFEI
WHICH APPEARED APRIL 1 IN ARTICLE WHICH RECEIVED
FRONT PAGE COVERAGE. PRIMIN ADDRESSED CRITICISM
WHICH HAS ERUPTED THROUGHOUT POLITICAL SPECTRUM OF
RISING PRICES AND COST OF LIVING AND OF
GOVERNMENT'S GENERAL ECONOMIC POLICY. (FOLLOWING IS
ACCOUNT BASED ON IMMEDIATELY AVAILABLE REPORTS

OF INTERVIEW, ADDITIONAL POINTS FOLLOW SEPTTEL.)

2. ACCORDING PRIMIN GOE WILL MAINTAIN ITS EMPHASIS ON FISCAL AND GENERAL ECONOMIC REFORM AS MAJOR METHOD TO COMBAT INFLATION. THIS POLICY INCLUDES INCREASING PRODUCTION AS MAJOR ELEMENT IN REDUCING PRICES. SALEM POINTED OUT THAT EGYPTIAN ECONOMY CANNOT BE INSULATED FROM REST OF WORLD. AS RESULT OF INSUFFICIENT LOCAL PRODUCTION AND INCREASING WORLD PRICES, GOE HAS SPENT \$7,000 MILLION IN PAST FOUR YEARS IN ORDER PROVIDE SUFFICIENT QUANTITIES OF NEEDED COMMODITIES AT REASONABLE PRICES.

3. HE OUTLINED FOLLOWING POINTS OF CURRENT GOVERNMENT PROGRAM FOR HELPING FIGHT RISING COST OF LIVING.

- A. SUBSIDIZED PRICES OF BASIC COMMODITIES WILL CONTINUE. GOE WILL PAY FOR THESE SUBSIDIES WITH PROCEEDS FROM TAXES ON LUXURY GOODS.

- B. SUGAR, TEA, OIL, MARGARINE WILL CONTINUE TO BE DISTRIBUTED IN RATIONED QUANTITIES AND AT "APPROPRIATE" PRICES.

C. MAIZE, BEANS, LENTILS, WHEAT, CLOTH WILL BE AVAILABLE AT CONTROLLED PRICES, WHICH WILL CONSTANTLY LIMITED OFFICIAL USE

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BE REVIEWED FOR ADJUSTMENTS UP AND DOWN, AND IN SUFFICIENT QUANTITIES.

- D. ANIMAL PROTEINS WILL BE RATIONED ACCORDING TO AVAILABLE SUPPLIES AND AVAILABLE QUANTITIES WILL BE INCREASED, IF POSSIBLE. MILK IMPORTS WILL BE INCREASED IN ORDER TO PROVIDE ADEQUATE SUPPLIES OF WHITE CHEESE.

- E. LUXURY GOODS WILL BE LEFT TO LAW OF SUPPLY AND DEMAND. PRICES MAY BE INCREASED BEYOND THE PROFIT CEILING (PRESUMABLY REFERRING TO MINTRADE DECREE 119 LIMITING PROFITS), IF THAT WILL HELP TO RAISE GOVERNMENT INCOME AND, THEREFORE, PROVIDE ADDITIONAL FUNDS WITH WHICH TO SUBSIDIZE BASIC COMMODITIES.

4. PRIMIN MADE PLEDGE TO KEEP CONSTANT WATCH ON PROFITEERING AND NOTED THAT 50,000 CASES HAD BEEN TRIED IN THE LAST THREE MONTHS COMPARED TO 30,000 IN PAST THREE YEARS. PRIMIN MAINTAINED, HOWEVER, THAT ONLY EFFECTUAL WAY TO SOLVE PROBLEM OF ADEQUATE

SUPPLIES AT REASONABLE PRICES IS TO INCREASE SUPPLY
BY INCREASING LOCAL PRODUCTION AND SUPPLEMENTING
THIS WITH IMPORTS.

5. SALEM ALSO EXPANDED ON PLANS FOR REFORM IN EMPLOY-
MENT POLICY FOR UNIVERSITY GRADUATES. TECHNICAL JOBS
WILL BE ALLOCATED HE SAID ON BASIS OF EXAMINATIONS
GIVEN BY PROSPECTIVE PUBLIC SECTOR EMPLOYERS. A
SYSTEM OF PUBLIC SERVICE TO DIRECT YOUTH ENERGY TO
NATIONAL PROJECWILL BE STUDIED AS A STAGE BEFORE
YOUTHS RECEIVE PERMANENT JOBS.

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AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 MMO-01 /087 W
-----076178 011356Z /43

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TO SECSTATE WASHDC 7467
INFO AMCONSUL ALEXANDRIA

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6. COMMENT: PM'S STATEMENT IS STRONG REAFFIRMATION
OF GOE COMMITMENT TO CONTINUE BASIC ECONOMIC REFORMS
AND NOT BE SIDETRACKED BY CURRENT COMPLAINTS RE
INCREASING COST OF LIVING. SALEM OFFERS LITTLE
COMFORT TO THOSE WHO ARE BEING SQUEEZED BY INFLATION.
TO THE CONTRARY, MANY OF HIS STATEMENTS ON GOVERN-
MENT POLICY WOULD INDICATE THAT FURTHER LIMITATIONS
ON SUBSIDIES AND INCREASE IN PRICES MAY BE EXPECTED.
HINT AT CHANGE IN EMPLOYMENT POLICY, AND ESTABLISH-
MENT NATIONAL SERVICE CORPS, MAY ALSO SIGNAL END TO
PRACTICE OF GUARANTEED JOBS FOR ALL UNIVERSITY
GRADUATES.

7. BASED ON ABOVE ACCOUNTS, SALEM'S RESPONSE TO
CRITICS IS REMARKABLY TOUGH AND WOULD INDICATE GOE
PREPARED FACE DOWN WIDESPREAD CRITICISM OF ECONOMIC

POLICY, ELTS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT REFORM, PRESS CONFERENCES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978CAIRO09818
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780142-0224
Format: TEL
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197804104/aaaadkbn.tel
Line Count: 170
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2d6c35a6-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 CAIRO 9773, 78 CAIRO 9662, 78 CAIRO 9509
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2827109
Secure: OPEN
Status: NATIVE
Subject: PRIME MINISTER RESPONDS TO CRITICS OF ECONOMIC POLICY
TAGS: ECON, EFIN, EG, (SALIM, MAMDUH MUHAMMAD)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/2d6c35a6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014